

# 9TH ANNUAL COPENHAGEN ECONOMICS POSTAL & DELIVERY CONFERENCE 2023

## THANK YOU

Thank you once again for your participation in the annual Copenhagen Economics Postal and Delivery Conference 2023!

For the ninth year in a row, Copenhagen Economics brought together representatives from industry, regulators and other policymakers. We have dived into the most pressing topics in the postal and delivery sector. The event provided a unique chance to reconnect and strengthen networks with leaders in the field.

This year's conference saw some 100 people come together from 28 countries around the world. All contributed to insightful and informative discussions on topics such as challenges and solutions to safeguarding a universal service, cross-border policy reforms, market disruptions and innovation, and future regulation of the postal and delivery sector.

As promised, we hereby share a summary of the conference with you.

Please let us know how you felt the conference went and what topics you would like to see investigated in next years event by filling out the very [brief survey here](#) or by [contacting us directly](#).

Once again, thank you for a wonderful event: we sincerely hope that you enjoyed the proceedings and that you will join us again next year.

## LIST OF SPEAKERS

### SESSION 1: Executive viewpoints

- Annemarie Gardshol  
Group CEO, PostNord Group
- Merete Clausen  
Director, European Commission DG GROW Investment Directorate
- Christian Levrat  
Chairman of the Board of Directors, Swiss Post
- Petros Galides  
2023 ERGP Chair / Deputy Commissioner, OCECPR
- Elena Fernandez-Rodríguez  
Chairperson of the Board of Directors, PostEurop / Deputy Director International Affairs & Sustainability, Correos

### SESSION 2: Global/Cross-border postal policy challenges and reforms

- Stuart Smith  
Chief International Postal Affairs, Office of Specialized and Technical Agencies - U.S. Department of State
- Christelle Defaye-Geneste  
Chair, European Union Affairs Committee – PostEurop / Director EU and customs affairs, Le Groupe La Poste
- Dr Meshal Almofadhi  
General Manager of Land Freight Transport, Transport General Authority - Saudi Arabia
- Dr Sven Kukemelk  
VP International Business, Omniva

### SESSION 3: Market developments in the age of disruption

- Bernardo Herman  
Executive Board Member, BIPT
- Hans Skruvfors  
Group CEO, Foodora
- Dr Cosimo Pacciani  
Head of Research Hub, Poste Italiane Group

### SESSION 4: Future regulation

- Emma Maraschin  
Head of section, Digitalisation Department - PTS Sweden
- Jayanthi Ezekiel  
Head of Regulatory Strategy and Policy, Royal Mail
- Margaret Cigno  
US Postal Regulatory Commission

## Session 1

# USPs should future-proof their operations by embracing efficiency and growth-oriented mindsets, as well as ensure proactive communication with key stakeholders

Declining letter volumes and increased competition from e-commerce operators put pressure on both postal operators and regulators to find ways to maintain the financial viability of the universal service obligation. While we have seen postal operators adopting drastic measures to cut costs down, digitalisation is also emerging as part of the solution. However, there is a consensus that efforts by postal operators must be accompanied by changes to regulation that recognise and adapt to new market conditions.

In our first panel session, we discussed the key challenges faced by postal universal service providers (USPs), their strategic responses to these challenges, and what this means for future regulation. The following are the key take-aways from the first panel:

### **Postal operators can actively embrace digitalisation rather than pay the consequences of its effects**

The growing use of digital means of communication continues to hurt postal operators' financial position in the letter mail business. Further, increased competition in e-commerce put pressure on postal operators to maintain their position in the parcel sector.

These trends have forced postal operators to adopt drastic measures to reduce their costs. Massive employee lay-offs, divestment of assets, and network rationing are common measures that have been observed across Europe.

But digitalisation has also emerged as part of the solution. We are seeing cases of postal operators expanding their service offerings to develop digital platforms as complementary tools to physical postal points. Initiatives to re-skill and up-skill older staff to integrate new technologies into their network have also been adopted.

Implementing growth and cost-cutting mindsets requires USPs to think carefully about their governance structures and whether Mail operations should be separated from Parcel. The key challenge, however, is maintaining synergies between both operations after separation.

### **Effective internal and external communication about the rationale for change is critical**

Changes to postal businesses are inevitable. And one of the key success (or failure) factors in that context is effective and evidence-based communication about these changes. This applies to both internal and external communication.

The executive-level engagement toward their employees has been an important element of postal operators' transformation journey. In particular, the inclusion of people in the process has been highlighted as a key driver of the success of that transformation.

We also heard about the importance of postal operators communicating clearly with the public about their role as universal service providers and that of the state as commissioner. This is particularly the case in turbulent times when postal operators get blamed for delivering poor service quality where regulation might be the underlying cause.

### **Commercial flexibility, subsidiarity, and understanding of user needs are key to future-proof regulation**

There is a consensus among USPs and regulators that postal regulation needs updating. However, on some issues, such as the regulation of parcel deliveries, there seem to be disagreements.

From the USP perspective, future regulation must allow sufficient commercial flexibility to adapt to new market conditions. First, less regulation of parcel markets is needed to allow USPs to compete on a level playing field with many private delivery firms. Second, regulation should incentivise innovation by giving freedom to USPs to invest in other businesses and unlock synergies. Finally, regulators should not be focused on introducing more competition in the letter market when demand keeps shrinking.

From the regulators' perspective, even in the declining letter markets and in the growing parcel delivery markets there can still be unmet user needs if markets are not working efficiently (market failures), e.g., deliveries in costly rural areas. This is discussed further on page 5.

However, there is no one-size-fits-all solution to postal regulation. Despite the overall trends described previously, there remain significant discrepancies in market conditions across EU Member States (MS). This situation calls for a set of harmonized rules to be set at the EU level while granting flexibility to individual MS and national regulators to act at a local level.

Both USPs and regulators also agree that the focus of regulation should shift from sender-oriented to receiver-oriented. For this to happen, extra efforts must be put into getting a deep understanding of the future needs of users. This calls for more studies that develop scenarios for the postal sector looking 10-20 years ahead.

## Session 2

# International postal policies must be simplified and adapt to fast-changing market conditions if cross-border e-commerce is to survive

A new strand of regulations on the cross-border trade of e-commerce items has caused a slow-down of international postal volume flows. In fact, postal operators are becoming increasingly frustrated with the complexity of the regulatory environment. This trend has opened the door to new initiatives aimed at expanding the UPU system to a wider set of postal players, as a way to make the handling of cross-border postal items more efficient. However, despite these efforts, the future of international e-commerce is likely to remain highly uncertain as competition for delivery is becoming more and more local.

In our second panel session, we discussed the regulatory challenges affecting cross-border mail flows, the initiatives aimed at reforming the UPU system, and the future relevance of international e-commerce. The following are the take-aways from our panel:

### **Recent cross-border regulations as well as major geopolitical events put a break on international postal flows**

Covid-19, Brexit, and the war in Ukraine all contributed to a reduction in cross-border volumes of postal items, but international regulation on e-commerce had the largest impact. A recent UPU study has shown that the combined ICS2 and the VAT package regulations have led to a loss in global volume of 25% for letter posts and of 10% for parcels.

It is expected that future regulatory and tax changes will bring even more challenges to the cross-border e-commerce sector. In particular, the envisaged removal of the €150 threshold for customs duties exemption and the requirements for environmental criteria to be included in customs relief forms are expected to create a significant burden on customs clearance processes.

In that context, postal operators argue that the current regulatory regime is overly complex and that there are ways in which it could be improved. For instance, extending the IOSS regime to cover all vendors and all items valued above €150, and automating returns procedures would lighten the burden on customs clearance processes. Postal operators are in charge of modernising cross-

border postal services but an even greater impact would be achieved if legislators acted as partners and enablers in that process.

### **Declines in global e-commerce volumes call for more interaction between USPs and other postal operators**

A key initiative to boost international postal flows has been to consider expanding the UPU system to a wider set of postal operators rather than restricting it to USPs.

In that context, the UPU is preparing and considering various interconnectivity models to maximise synergies, enable standardisation, and foster adoption on a voluntary basis.

### **The relevance of UPU and cross-border postal flows is likely to diminish over the next 10 years**

According to the panellists in this session, the future success of large e-commerce businesses rests on three pillars. First, the consolidation of all parcels ordered from one shop into one single package is key to taking advantage of economies of scale and reducing costs. Second, as the speed of delivery is becoming increasingly important to consumers, the e-commerce network infrastructure must be set up at a more local level to be closer to the customer. Lastly, consumer choice must be at the centre by letting consumers take control of shipping speed and payment methods.

The Covid-19 crisis caused all large e-commerce businesses to invest massively in building new assets and growing their operations. But as the situation came back to normal these businesses have experienced a post-Covid hangover and are now struggling to keep current flows in place. This has led to a massive downsizing of their business.

The absence of growth in the system combined with the need for e-commerce businesses to act more locally means that cross-border flows are not likely to recover any time soon. Regulators should be mindful of these trends when designing USO rules at the country level to ensure they reflect national conditions.

## Session 3

# New delivery models are disrupting the market and providing consumer welfare benefits; however, existing regulations risk creating an unlevel playing field

Exogenous events such as the Covid-19 pandemic have fast-forwarded the emergence of new delivery models that are disrupting traditional delivery markets. These disruptions are raising questions for regulators about how to adapt to these market changes to ensure a level playing field is maintained in the delivery sector. These market disruptions also affect postal operators who must continue to transform to meet evolving customer needs.

In our third panel session, we discussed the emergence of new delivery models, how these affect postal operators' strategies, and what this means for future regulation. The following are the take-aways from our panel:

### **Innovation can bring significant benefits to consumers**

The Covid-19 crisis has increased the demand for convenience, and this remains true even in the post-pandemic world. In that context, quick-commerce (or Q-commerce) has emerged as a new delivery model. This model consists of ultra-fast delivery of goods to the door at any point in time, regardless of location.

Q-commerce is changing the way delivery networks are structured. The model often builds on partnerships with physical stores to create micro-fulfilment centres and relies on a large community of riders to fulfil order deliveries in record times. In some markets, trials of the most advanced technologies are made, such as wheeled robots, drones, and self-driving cars are being tested with the ambition to be integrated as part of the delivery network.

### **Postal regulation must adapt to market disruptions as has been the case in other sectors**

While innovative delivery models such as Q-commerce have the potential to bring obvious benefits to consumers, regulations need to strike a good balance between addressing clearly identified market failures and, while doing that,

maintaining incentives for innovation. In particular, the main concern in a dynamic delivery market is that regulations may create an unlevel playing field which may reduce both allocative and dynamic efficiency. However, this challenge is not unique to postal markets and other sectors may provide helpful lessons.

According to the panellists in this session, there are considerable parallels between the postal sector under disruptions and the audio-visual industry and its re-regulatory journey. In particular, the growth of digital communication which enabled the rise of audio-visual platforms transformed the way media is consumed and financed. This transformation has led to new case-law and the adoption of new directives.

Similarly, postal regulation must inevitably develop in response to technological disruptions through case-law and the ongoing review of the Postal Service Directive. New developments in postal case-law are contributing to solving the question of whether the boundaries of postal markets should be redefined and expanded to be part of a wider delivery market.

### **Traditional postal operators must embrace innovation to be able to meet evolving customer needs**

The growing interaction between the virtual and physical worlds is leading traditional postal operators to operate as platforms that can offer services through both, physical networks and digital services such as apps and websites. Some postal operators see opportunities in innovative technologies to support their country's economic and social cohesion. The development of electronic services to allow citizens to conduct their administrative tasks online and the transformation of physical post offices to become co-working spaces are examples of such initiatives. This transformation comes with the need to re-skill the existing workforce. As one of the largest employers in their country, postal operators have a social responsibility to remain human-centred in that transformation process.



## Session 4

# Future regulation must focus on clearly identified market failures and take the users' perspective

The needs of postal users are becoming more complex and diversified. In that context, postal regulation should adapt to ensure that it covers only the relevant services and that they are provided at the right level of quality. Failing to do so can have serious economic consequences for USPs. But finding the right balance requires a careful assessment of the impact of regulatory changes.

In our fourth panel session, we discussed the relevance of users' needs in shaping future regulation, the negative consequences of outdated regulation, and the need and challenges of assessing impact. The following are the key take-aways from the fourth panel:

### **Unmet users' needs must be the source of postal regulation**

Panellists in this session presented examples of studies on the postal needs of small businesses which demonstrate that although postal services are still essential, particularly in remote areas, user needs have diversified significantly compared to almost 30 years ago when the first Postal Services Directive was designed. This has been recognized by some countries where regulation on postal delivery speed and frequency has been relaxed, within the boundaries of subsidiarity and exceptions embedded in the EU regulatory framework.

Importantly, according to the panellists, future regulation should be informed by the type of postal services that are needed from the perspective of users rather than by the way these services are produced. For example, Consumers do not care whether a letter is sent as a single piece or whether it was part of a bulk offer – the content is what matters. Regulation should thus be consistent across postal products that have the same value to recipients.

Regulators should pay particular attention to distinguishing between the scope of the universal services and the scope of the obligation. While the former may be large due to evolving consumer needs, the latter should be small if market forces alone can meet most needs. The guiding principle of any intervention should be the existence of a clearly identified market failure.

### **Outdated USO constrains postal incumbents' ability to adapt to changes**

The legal requirement to provide a service that customers no longer need can have serious consequences on postal operators' financial health and the value of their networks. Further, it can limit their ability to invest in what customers really want.

In that context, changes to the scope of the USO are necessary. According to our panellists, such changes should be simple, measurable, and basic – they should be targeted at addressing reasonable user needs that cannot otherwise be sufficiently met by the market.

But changes to existing regulations can be a difficult and lengthy process. For example, in some countries, the regulator must be able to demonstrate that any change to the minimum service requirements reflects the reasonable needs of postal users. Also, the status quo bias and the lack of budget priority can make it challenging to take on the long-term project of changing postal legislation.

### **Monitoring the impact of regulatory changes is key to shaping future regulation but market disruptions make this exercise difficult**

Market disruptions have made it hard to disentangle the true impact of regulatory changes. For example, there is a question as to whether the Covid-19 pandemic has caused structural changes to the market or whether its effects on consumers' patterns were temporary. Difficulties in allocating common costs to specific postal products and services also contribute to that challenge, which is a long-standing issue.

Despite these challenges, future regulations should adjust to the changing environment. In particular, questions are being raised as to whether there is still a need for regulation of parcel delivery services and whether letter pricing rules need updating. These questions should be tackled by assessing the impact of changes (or no changes) on market efficiency.

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**Postal and delivery markets worldwide are changing rapidly. Market liberalisation, increasing e-commerce and growing e-substitution have led to a new composition of items delivered by national postal operators and a resulted in a competitive setting where innovative business models are competing with traditional ones.**

These developments create new opportunities for operators in postal and delivery markets, but they also create challenges – not only for operators, but for regulators and other policy makers too. Our postal & delivery team helps public and private sector clients worldwide to understand, predict and solve problems that occur in postal and delivery markets.

## POSTAL REGULATION & REFORM

- Regulatory design and impact assessment
- User needs and future USO
- Access regulation
- Terminal dues
- Calculation of USO net costs
- Cost allocation
- Tariff regulation
- Regulatory cases

## STRATEGY & BUSINESS PERFORMANCE

- E-commerce and parcel delivery
- Strategy and business models
- Pricing strategies
- Environmental sustainability

## COMPETITION ISSUES & STATE AID

- Competition/antitrust cases and compliance work
- Anti-competitive discounts
- Relevant markets
- State aid issues

